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A Taste of CANADA'S FOODSERVICE INDUSTRY

By Bill Dover and Geoff Wilson

The Canadian foodservice industry is a large and diverse business segment with projected total sales in excess of $50 billion for 2006. The industry is alive and well with several years of consistent growth both in the immediate past and forecasted for the near future.[1]

Figure 1 details total sales from 1990 to 2006.

The commercial and non-commercial sectors

Statistics Canada breaks the foodservice industry down into two main sectors: 'Commercial' and 'Non-commercial.' The commercial sector consists of foodservice operations for which the preparation and sale of food is the prime purpose. This includes not only restaurants, but also caterers and bars, with total 2006 sales for the whole commercial sector forecasted at $39.4 billion, up 3.9 per cent over 2005. This increase can be attributed in part to menu inflation, *i.e.* price increases caused by covering of the costs of inflation. The Canadian Restaurant and Foodservices Association (CRFA) has projected menu inflation at 2.7 per cent for 2006. Therefore, 'real growth' (customer count and unit growth), plus the ability to increase prices over inflation, is only estimated at 1.2 per cent.

The non-commercial sector is comprised of foodservice outlets located in facilities where foodservice is not the primary purpose, *e.g.* hotels, along with institutions operating foodservices as part of their total function, including hospitals, schools, prisons, etc. (In the case of

Figure 1

Total Canadian Foodservice Industry Sales 1990 ~ 2006

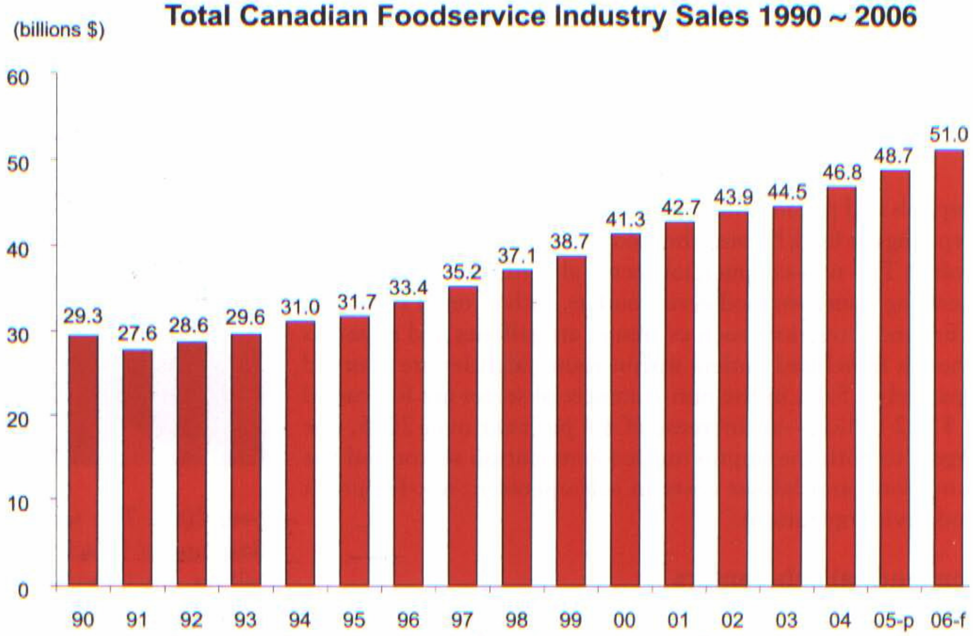

Table courtesy Canadian Restaurant and Foodservices Association and Statistics Canada.
p = projected, f = forecasted

"Full-service restaurants form the largest commercial sub-sector in Canadian foodservice."

hospitals and prisons, the sales reported are actually the costs of preparing the food, because the foodservice operations are not-for-profit.) The non-commercial sector also includes institutions operating their own foodservice outlets, such as retail stores like IKEA and attractions such as arenas, art galleries and museums (though franchised outlets within those facilities are counted separately). Sales in the non-commercial sector are forecasted at $11.2 billion—an increase of 4.4 per cent over 2005, due largely to both the improving accommodation sector and the rising food and labour costs in self-operated, not-for-profit foodservice operations.

Commercial sub-sectors

Within the commercial sector, the largest sub-sector is 'Full-service Restaurants,' that is, restaurants where customers are served at the table. Estimated sales for this sub-sector are forecasted at $18.8 billion for 2006, an increase of 4.3 per cent over 2005. The second-largest sub-sector is 'Limited-service Restaurants' (quick service), with 2006 sales forecasted at $14.9 billion, an increase of 3.4 per cent over 2005. The other commercial sub-sectors are 'Contract and Social Caterers,' with forecasted sales of $3 billion, and 'Taverns, Bars and Nightclubs,' with forecasted sales of $2.7 billion.

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Where franchises fit in

Nearly all franchised foodservice operations exist in the full-service and limited-service sectors. Table 1, page 37, shows the top five brands by annual sales in each sector.

Revenues of franchised foodservice operations are accounted for in the commercial sector. For example, if a franchised doughnut shop is located inside a hospital or college, the sales are credited to the commercial sector. While no data specifically identifies total franchised foodservice industry sales, CREST/NPD Group data for the 12 months ending November 2005 reports chains account for 54.6 per cent of commercial foodservice sales, while independents account for the remaining 45.4 per cent.

While the restaurant industry is relatively easy to enter, operators must monitor sales and costs closely in order to sustain ongoing profitability. Franchised restaurants often have a better chance of being profitable than independents because their systems are established and (generally) proven. However, in the process of choosing a franchised brand, one must look closely at its history, current position, financial business case and offerings compared to its competitors, as well as to anticipated future growth.

Looking ahead

The future of the Canadian foodservice industry looks both promising and challenging, as it will be influenced by a number of key trends, all of which are being felt today:

- The 'time famine.' As Canadians continue to lead busy lives, dining out has become a growing alternative to eating at home. This is likely to benefit both full-service and quick-service establishments, though it is a bigger trend in the United States.

Table 1

Top Five Foodservice Brands in Annual Sales, Full-service and Quick-service

Full-service Restaurants		Quick-service Restaurants	
Chain (in millions)	**2005 sales (in millions)**	**Chain (in millions)**	**2005 sales (in millions)**
Boston Pizza	$513	Tim Hortons	$3,440
Swiss Chalet	$443	McDonald's	$2,570
St-Hubert	$350	Subway	$917
Keg	$342	KFC	$700
Prime Restaurant Group (East Side Mario's, Casey's)	$331	Wendy's	$604.5

Table courtesy Geoff Wilson. Data courtesy Foodservice and Hospitality *magazine.*

Canadians still seem less willing to pay for foodservice than Americans, forcing greater price pressure here;

- The greater growth of the full-service sub-sector over quick-service, which can be attributed in part to the aging baby boomer population. This demographic typically has more leisure time and disposable income, and prefers to be served at the table;
- Heavier competition in the foodservice industry, which has forced restaurateurs to diversify their menus and concepts. This includes 'fresh' foods and the healthier eating options driven by the growing problem of obesity in both children and adults; and
- The shortage of labour for both skilled and entry-level workers. This is already a huge issue, but strictly one of demographics. While the number of older people dining out is growing, those in the age groups who typically work in restaurants is actually dropping. As such, there is a shortage of labour at a time of increased demand. However, in 2010, a larger cluster of people will come of age to work in the industry, which could start to relieve the problem.

Notes

[1] Statistics given in this article are derived from either the Canadian Restaurant and Foodservices Association (CRFA) and Statistics Canada, or *Foodservice and Hospitality* magazine.


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